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C O N F I D E N T I A L SECTION 01 OF 04 AMMAN 004440

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TAGS: [PREL](#) [ETRD](#) [ENRG](#) [EAID](#) [ECON](#) [JO](#)  
SUBJECT: ASSISTANT SECRETARY WAYNE'S MEETINGS WITH  
JORDANIAN TRADE MINISTER ZU'BI AND PLANNING MINISTER AL-ALI

REF: A. AMMAN 4297

[1](#)B. AMMAN 0013

Classified By: CHARGE DAVID HALE FOR REASONS 1.4(B) AND (D)

[1](#)1. (C) SUMMARY: EB Assistant Secretary E. Anthony Wayne met with two new reformist Jordanian ministers from the Ministries of Trade and Planning on the margins of the BMENA Trade and Investment Finance Conference held in Amman May 18.

Both laid out the GOJ's aggressive plans for fiscal reform, including by privatization, a possible new flat tax and enhanced collections on the revenue side, and streamlined government and reduced spending on the expenditures side. Both also signaled the GOJ's commitment to reducing oil subsidies over the next few years; however, Minister of Planning and International Cooperation Suhair al-Ali stressed that Jordan is now facing a severe budget shortfall due to the effect increased oil prices have on Jordan's fuel subsidy program, noting the current Saudi contribution was only 30 percent of last year's. She repeated the GOJ's appeal for further U.S. help in securing increased oil assistance from its neighbors.

[1](#)2. (C) SUMMARY CONTINUED: al-Ali also made the GOJ's case for the largest portion of the \$100 million in supplemental assistance to be given in cash. On external debt, al-Ali said that debt service was high, and the overall fiscal picture was "very tough." She noted Jordan's desire to be a model of reform in the region and asked once again that the U.S. provide "moral support" for Jordan's effort to persuade the Paris Club to raise the ceiling on debt swaps from 30 to 50 percent. Minister of Industry and Trade Sharif Zu'bi said that debt swaps and privatization were interlinked in order to reduce economic burdens while attracting strategic investors. Zu'bi outlined plans for greater trade with the EU through pan-Euro-Med cumulation rules, noting similar plans for the U.S. He sought treatment for Jordan's QIZ product audits equivalent to those in Egypt.

[1](#)3. (C) SUMMARY CONTINUED: A/S Wayne reiterated strong USG support for economic development in Jordan, noting USTR's commitment to enhanced trade and our multiple high-level efforts to secure oil assistance. He also urged the GOJ to provide its proposal for supplemental expenditures as soon as possible. A/S Wayne repeated USG demands to end the DAMAN pre-shipment program as it is currently practiced, noting that it was a barrier to trade not in keeping with our bilateral free trade agreement. Zu'bi promised to finalize plans to revamp DAMAN saying the GOJ must be "finished with it." END SUMMARY.

[1](#)4. (U) Accompanying A/S Wayne in the meeting with Zu'bi were Charge David Hale, Econ/C Richard Eason and Econoff Greg Lawless (notetaker). Acting DCM Chris Henzel was present for the meeting with al-Ali, along with Econ/C and Econoff.

Trade Minister Zu'bi : Lean Government, Export-Led Growth  
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[1](#)5. (C) Minister of Industry and Trade Sharif Zu'bi led off by saying the new government he had joined was "reformist," although it had not been formally declared as such. He was dedicated to "getting the government out" of areas where it had no business, including by privatization of assets in telecommunications, minerals and tourism. He outlined a path for fiscal reform that included an overhaul of the tax system to increase revenues while reducing spending on fuel subsidies and the GOJ's debt service. This represented quite a lot of work and would require assistance, he said.

[1](#)6. (C) On fuel subsidies, Zu'bi said that the reduction would be gradual so as to soften the blow at the gas pumps and to keep attracting investors. On privatization, he noted that the program was "very much interlinked" with the GOJ's proposed debt swaps. He cited the sell-off by Royal Jordanian Airlines of the Queen Alia Airport duty free shop to Spain's Aldeasa and possibly more deals between France Telecom and Jordan Telecom, as well as potential interest by Japan in telecomms operations. The GOJ tries to mix its use of debt and equity, he said, not only to reduce its burden,

but also to attract strategic investors.

#### Trade: A Blend of Export Policies

17. (C) Zu'bi said Jordanian economic growth depended on liberalizing trade. Barriers had to go down, just as key industries needed to be upgraded and other sectors might have to go. Capacity building was key; he acknowledged USAID assistance in identifying and strengthening major export sectors such as pharmaceuticals, Dead Sea health and cosmetic products, garments, jewelry and olive oil. He proudly pointed to Jordanian stone and marble as a big seller worldwide, noting Chinese fascination with yellow marble.

18. (C) Jordan was a member in the Agadir trade agreement with Morocco, Tunisia, and Egypt, which was likely to come into effect in June. Through this and an enhanced trade agreement with the EU, he expected Jordan to cumulate more content with its neighbors and to significantly increase exports to the EU. Jordan would also cumulate content with Israel in a new QIZ-like trade arrangement with the EU (Ref B), but the GOJ needed to continue pressing physical access issues with Israel if it were to use more Israeli inputs, he said. (NOTE: A reference to the continued lack of door-to-door access called for in a bilateral transportation agreement but hindered by Israeli security concerns. END NOTE.)

19. (C) A/S Wayne took note of outstanding GOJ requests for tariff reduction acceleration and other trade-related issues, saying that the United States Trade Representative was looking at these issues.

#### U.S. Invited to Look at Rules of Origin, Cumulation in FTA

10. (C) Referring to new U.S. Free Trade Agreements with Morocco and Bahrain, Zu'bi said that Jordan was intensively investigating cumulation of content with those countries for exports to the U.S. It would add to the competitiveness of Jordanian industries, he said. Charge Hale expressed the hope that the USG could receive a concept paper on FTA-based cumulation that the GOJ had promised at last June's bilateral FTA Joint Committee (JC) meeting. When Zu'bi also raised joint projects with FTA partner Singapore possibly including an Integrated Sourcing Initiative (ISI), A/S Wayne reiterated USG hopes to receive a concept paper.

#### Jordan Wants QIZ Equivalence with Egypt

11. (C) Turning to Israel's streamlined system for auditing the required Israeli inputs in duty-free products from Egyptian Qualifying Industrial Zones (QIZs), Zu'bi noted that Israeli officials had so far been less than enthusiastic in their reaction to repeated GOJ requests for a similar system. (Jordan's seven-year-old QIZ system requires pre-approval of inputs on a product-by-product basis; the Israel-Egypt-U.S. arrangement provides for a quarterly, factory-based post-audit system.) A/S Wayne urged the GOJ to continue pursuing this request and then, once there was an opening, the USG would see what it could do.

#### USG Asks for Progress on DAMAN Trade Barrier

12. (C) Regarding Jordan's DAMAN product conformity and pre-shipment inspection program, A/S Wayne noted USG concerns about lowering barriers which could in any event negatively affect economic growth. He asked for an update on GOJ promises to initiate a risk-based vetting system with Suppliers' Documentation of Conformity (SDOC). A/S Wayne expressed the hope that an American product, such as a personal computer, could enter Jordan without facing barriers, especially given the bilateral trade agreement. Minister Zu'bi responded that he did not have a problem with the SDOC approach. Furthermore, new cars would be removed from the DAMAN program, he said. A/S Wayne replied that he was looking forward to the proposed changes to DAMAN. At a later point in the meeting, Zu'bi said that he would finalize plans to change DAMAN procedures, saying that the GOJ must be "finished with it" very soon. (NOTE: Zu'bi later scheduled a meeting for the following week with an interagency Embassy team and the Jordan Institute of Standards and Metrology to review solutions to the DAMAN-related trade barriers (Ref A). END NOTE.)

#### Reform in the Region

13. (C) Reflecting on trade liberalization in the region, Zu'bi said there was no stopping a process that had begun already, which he likened to a train leaving the station. The next important step was to bring along the populace in other contexts -- political, social and educational. While

these steps would take time, for Jordan time was of the essence, he said. He thought that other countries in the region were "jealous" of Jordan. While traditional elements had to be considered (as a potential hindrance to the reform process), the people were listening, he said. The GOJ had to improve the standard of living of the man in the street, and Jordanians could see the light at the end of the tunnel. Though some were concerned about falling behind, he liked to think that the GOJ was acting to achieve its goals, he said.

#### Planning Minister al-Ali: Challenges Ahead

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14. (C) Referring to the skyrocketing price of oil, Minister of Planning and International Cooperation Suhair al-Ali said that Jordan faced a significant challenge in the near term with a deficit in the budget amounting to \$225 million more than anticipated to accommodate oil subsidies alone. She noted plans to have simplified personal and corporate taxes with more efficient collections backed by enforced criminal penalties. But belt tightening would be required, including 20 percent across-the-board cuts in government expenditures for salaries through streamlining and reduced staffing. Eliminating travel and reducing use of government cars were among the steps the GOJ would be taking to cut expenses. As the GOJ cut oil subsidies, it would increase the social safety net for the poor, she added.

#### Need for More Oil Assistance to "Fill the Hole"

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15. (C) While the plan for reducing oil subsidies continued, said al-Ali, Jordan would need more oil assistance in the short term. The current monetary contribution by Saudi Arabia for example, was only 30 percent of last year's levels, she noted, given today's oil prices. The assistance was much appreciated, she said, but it "doesn't fill the hole."

16. (C) A/S Wayne noted that the USG had responded to GOJ requests by weighing in directly with the governments of Saudi Arabia, the United Arab Emirates, and Kuwait. President Bush had also requested assistance from the Saudis, he noted. He expressed his hope that Jordan's neighbors would respond to these appeals; it appeared that the Saudis were already responding, he added.

#### Debt Swaps

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17. (C) Jordan was seeking additional assistance grants to continue its social, health and educational programs in the face of the budget deficit, but it also was requesting more relief from the external debt burden, she said. She noted that Jordan continued to request raising its debt swap ceiling from 30 to 50 percent in the Paris Club and was seeking U.S. political and moral support in this effort. A/S Wayne noted that while the USG political support for Jordan's economic growth was strong, it was difficult to support debt swaps above the current ceiling, especially since Jordan had gone through four debt treatments already. Even if the U.S. did not participate in the swaps, supporting them could set an unwanted precedent with other debtor nations. A/S Wayne encouraged the minister to make a straightforward, understandable case regarding its added short-term debt burden and then the USG would try to work with the GOJ and our G-7 and Paris Club partners on this problem.

#### Supplemental Assistance

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18. (C) The planning minister provided background on ongoing discussions with the USAID mission to allocate the \$100 million supplemental assistance package between cash and programs. She noted the GOJ's continuing needs in its current budget crisis for as much cash as possible. A/DCM Henzel added details concerning the current understanding about possible next steps. A/S Wayne noted that the decision had not yet been taken in Washington on the relative allocations in that supplemental and urged the GOJ to present any relevant information as soon as possible, as the decision would need to be taken soon and in a transparent and accountable manner. Key Congressional players would need to agree with any shift.

19. (U) This message was cleared by Assistant Secretary Wayne.  
HALE